

Message Text

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ACTION EB-08

INFO OCT-01 ARA-10 EUR-12 EA-10 ISO-00 INT-05 PM-05

NSC-05 SP-02 SS-15 CIAE-00 INR-10 NSAE-00 OES-09

CEQ-01 COME-00 DODE-00 GSA-02 /095 W

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R 010900Z AUG 78

FM AMEMBASSY KUALA LUMPUR

TO SECSTATE 7014

INFO AMEMBASSY BANGKOK

AMEMBASSY JAKARTA

AMEMBASSY LA PAZ

AMEMBASSY LONDON

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E. O. 11652: N/A

TAGS: EMIN, ITC, MY

SUBJ: STATE LAND POLICY AND THE TIN INDUSTRY.

1. IN A RECENT SPEECH (COPY BEING POUCHED TO DEPT) THE CHIEF MINISTER OF THE STATE OF SELANGOR, DATUK HORMAT RAFEL, CLARIFIED HIS STATES CONTROVERSIAL POLICY WITH RESPECT TO THE GRANTING OF MINING LEASES FOR THE TIN INDUSTRY. UNDER MALAYSIA' FEDERAL CONSITUITION, LAND POLICY IS ABROGATED TO THE STATES AND MANY OBSERVERS FEEL THAT IT IS STATE LAND POLICIES WHICH REMAIN THE MAJOR STUMBLING BLOCK TO EXPANDING TIN PRODUCTION IN MALAYSIA. SELANGOR IS THE SECON MOST IMPORTANT TIN MINING STATE IN MALAYSIA AND WITHIN ITS BORDERS ARE LOCATED THE MOST IMPORTANT PROVEN RESERVES IN THE COUNTRY AT KUALA LANGGAT. BECAUSE OF SELANGOR'S HARD LINE, DEVELOPMENT OF KUALA LANGGAT HAS NOT PROCEEDED SINCE THE RESERVES WERE FIRST JUDGED COMMERCIALY VIABLE IN 1972. IT WAS HOPED THAT WHEN THE FEDERALLY CONTROLLED MALAYSIAN MINING COPORATION OBTAINED CONTROL IN 1977 OF THE BRITISH FIRM WHICH HAD INTENDED TO DEVELOP KUALA LANGGAT, THE PROBLEM OF LEASES WOULD

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BE QUICKLY CLEARED UP. AFTER EIGHTEEN MONTHS OF EFFORT, THIS HAS NOT OCCURED AND THE OUTLOOK, GIVEN SELANGOR'S INTRANSIGENCE, IS ANYTHING BUT ASSURE.

2. THE CHIEF MINISTER, WHO IS IN MANY WAS THE EQUIVALENT OF A GOVENOR OF A U.S. STATE, OBVIOUSLY DECIDED THAT A FORMAL STATEMENT OF THE STATE'S POSITION WAS IN ORDER AD DELIVERD

IT TO THE INSITITUE OF MININT AND METALLURGY'S ANNUAL DINNER IN KUALA LUMPAR. A READING OF THE SPEECH INDIACTES THAT THE STATE HAS DECIDED THAT IT WILL REPRESENT ALL BUMIPUTRA (ETHNIC MALAY) INTERESTS IN THE IN INDUSTRY OPERATING THROUGH A PUBLIC CORPORATION IS HAS SET UP KNOWN AS KUMPULAN PERANGSANG SELANGO BERHAD (KPSB). THE REASON FOR THIS ACTION, ACCORDING TO DATUK HORMAT, IS THAT THE STATE DOES NOT RECEIVE AN ADEQUATE RETURN FROM THE FEDERAL GOVERNMENT TO COVER THE COSTS IT ENCOUNTERS N DEVELOPING TIN LANDS.

3. WITH RESPEC TO RENEWALS OF EXISTING LEASES, THE CHIEF MINISTE STATED THAT IN THE CASE OF FOREIGN CONTROLLED COMPANIES THE RENEWED LEASE WOULD BE GIVEN TO KPSB WHICH WOULD IN TURN SUB-LEASE THEM TO THE FOREIGN COMPANY AFTER A MUTUALLY SATISFACTORY PRICE HAD BEEN WORKED OUT. APPLICATIONS FOR RENEWALS FROM MALAYSIAN COMPANIES WOULD NO BE SUBJECT TO THIS PROVISION AND WOULD BE CONSIDERED ON A NORMAL BASIS.

4. WITH RESPECT TO NEW LEASES, THE POLICY IS CONSIDERALY DIFFERENT.FOREIGN COMPANIES CAN ONLY PARTICIPATE N THE BASIS OF 70 PECTENT KPSB AND 30 PERCENT FOREIGN OWNERSHIP. FOR MALAYSIAN COMPANIES, NO SPECIAL RESTRICTIONS WOULD BE PUT INTO EFFECT IF THE APPLICATION COVERED LESS THAN 500 ACRES. IF, HOWEVER, IT COVERED MORE THAN 500 ACRES (AS IS THE CASE FOR ANY DREDGINING OERATION) APPROVAL WOULD ONLY BE LIMITED OFFICIAL USE

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GRANTED IF KPSB HAS 51 PERCENT OF THE EQUITY.

5. COMMENT: ABOUT THE BEST THA CAN BE SAID FOR THIS SPEECH IS THAT IT CLEARS THE AIR AND BRINGS THE QUESTION OF STATE LAND POLICIES OUT IN THE OPEN. THE ONLY BRIGHT NOTE IN THE SPEECH WAS THAT LEASES FOR LESS THAN 500 ACRES BY MALAYSIAN COMPANIES WILL BE TREATED "NORMALLY"WITHOUT ANY EQUITY RESTRICTIONS. THIS COULD, IF TRULY IMPLEMENTD, HELP THE SMALL, MOSTLY CHINESE-OWNED GRAVEL PUMP OPERATIONS, WHICH HAVE ENCOUNTERED SERIOUS DIFFICULTIES IN RENEWING THEIR LEASES. IN THE CASE OF EQUITY PARTICIPATION, THE MAJOR PROBLEM IS THAT KPSB IS NOT PLANNING ON PUTTING UP ANY CASH FOR EIGHT ITS 51 PERCENT SHARE WITH MALAYSIAN FIRMS ONNEW LEASES COVERING MORE THAN 500 ACRES OR ON TE 70 PERCET IT IS DEMANDING FOR JOINT VENTURES WITH FOREIGN COMPANIES. THE GOM IS DEEPLY WORRIED ABOUT THIS MATTER AND ONE OF PAUL LEONG'S (NEWLY APPOINTED MINISTER OF PRIMARY INDUSTRIES) MOST PRESSING PROBLEMS IS TO ATTEMPT TO RESOLVE THIS ISSUE. THE "BUSINESS TIMES", WHICH OFTEN CLOSELY REFLECTS THINKINGIN OFFICIAL CIRCLES ON COMMODITY POLICY, HAS EXPRESSED CONCERN EDITORIALY WITH SELANGOR'S POLICY AND HAS CALLED FOR URGENT ACTION AT THE NATIONAL LEVEL. IT IS UNLIKELY, HOWEVER, THAT THIS

MATTER CAN BE SATISFACTORILY RESOLVED IN TE SHORT TERM.
INDEED, THE MAJOR QUESTION NOW BEFORE THE INDUSTRY IS HOW SOON
WILL THE TIN-RICH STATE OF PERAK FOLLOW SELANGOR'S EXAMPLE.
(FOR FURTHER BACKGROND ON FEDERAL/STATE RELATIONS,
DEPT. MAY WISH TO REVIEW PARA 4 OF KUALA LUMPUR 7400).
MILLER

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